

Message Text

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ACTION ARA-14

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 AGRE-00 PA-01
IO-13 /091 W
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R 201805Z APR 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 7189
INFO AMEMBASSY LONDON
AMEMBASSY BOGOTA
AMEMBASSY GUATEMALA
AMEMBASSY SAN SALVADOR
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AMCONSUL RIO DE JANEIRO
AMCONSUL SAO PAULO

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E.O. 11652: N/A
TAGS: EAGR, ETRD, BR
SUBJECT: BRAZIL'S COFFEE GROWERS' "MARCH ON BRASILIA"

1. SUMMARY. THE RECENT BRAZILIAN COFFEE GROWERS' "MARCH ON BRASILIA" TO PRESENT A LIST OF DEMANDS TO GOB AUTHORITIES WAS ONLY PARTIALLY SUCCESSFUL. GROWERS REMAIN DISSATISFIED BUT ARE TAKING ADVANTAGE OF NEW IBC COFFEE PURCHASE PROGRAM. GOB ACTIONS IN RESPONSE TO GROWERS' DEMANDS, WHILE NOT SPECIFICALLY AIMED AT THE EXPORT MARKET, MIGHT HAVE SOME FIRMING EFFECT ON WORLD PRICES. DESPITE INCREASING PRESSURE, CALAZANS' FUTURE AS IBC HEAD REMAINS SECURE FOR THE MOMENT.

END SUMMARY.

2. BACKGROUND. BRAZILIAN COFFEE GROWER DISCONTENT,
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WHICH HAD BEEN GROWING BUT AMORPHOUS SINCE MID-1977 WHEN BRAZILIAN COFFEE INSTITUTE (IBC) EXPORT POLICIES EFFECTIVELY SHUT BRAZIL OUT OF THE WORLD COFFEE MARKET, BEGAN TO COALESCE IN LATE MARCH. ACTIVITY WAS STRONGEST IN THE STATE OF SAO PAULO, AND THE INTERIOR TOWN OF ADAMANTINA BECAME THE FOCAL POINT FOR COFFEE GROWER ORGANIZATION EFFORTS. ON MARCH 27,

ALMOST 2,000 GROWERS FROM SAO PAULO, PARANA, AND MINAS GERAIS MET IN ADAMANTINA TO COORDINATE THEIR DEMANDS. THEIR MOVEMENT BECAME KNOWN AS THE "MARCH ON BRASILIA", AS ORIGINALLY IT WAS THOUGH THAT A LARGE NUMBER OF GROWERS WOULD GO TO BRASILIA IN A MASS MOVEMENT (A SIMILAR "MARCH" IN 1958 WAS STOPPED BY THEN PRESIDENT KUBITSCHKE, WHO USED THE ARMY TO KEEP THE GROWERS FROM TRAVELING IN CARAVANS TO RIO DE JANEIRO). IN THE END, A DELEGATION OF ONLY 24 ENDED UP GOING TO BRASILIA TO PRESENT THE DEMANDS.

3. THE MAJOR DEMANDS AGREED ON AT THE MARCH 27 MEETING IN ADAMANTINA WERE THE FOLLOWING:

A. IMMEDIATE END TO THE IBC "CONTINGENCIAMENTO" (CONTINGEY) PROGRAM WHICH REQUIRES COFFEE EXPORTERS TO SELL ONE BAG OF COFFEE TO THE DOMESTIC MARKET AT A FIXED PRICE IN ORDER TO BE ALLOWED TO EXPORT TWO BAGS;

B. INCREASE IN THE COFFEE SUPPORT PRICE (BASIS FOR CROP FINANCING LOANS) TO CR\$3,000/BAG (FROM CR\$1,250) EFFECTIVE APRIL 1;

C. PURCHASE BY THE IBC OF TYPE 7 (NOT EXPORT QUALITY) COFFEE ON THE SAME BASIS AS IT HAS BEEN PURCHASING LIMITED OFFICIAL USE

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TYPE 6 AND BETTER; AND

D. EXTENSION OF BANK OF BRASIL DEBTS INCURRED BY THE GROWERS AFTER THE 1975 FROST.

THESE DEMANDS WERE MADE INTO A MEMORANDUM WHICH THE GROWERS' DELEGATION HOPED TO PRESENT TO PRESIDENT GEISEL. ANOTHER DEMAND MADE BY THE GROWERS, ALTHOUGH NOT PART OF THE LIST ELABORATED AT ADAMANTINA, WAS THE CALL FOR THE DISMISSAL OF CAMILLO CALAZANS AS HEAD OF THE IBC.

4. INITIAL REACTIN. AS EXPECTED, THE INITIAL GOB REACTION TO THE GROWERS' MOVEMENT WAS QUITE NEGATIVE. CALAZANS POINTED OUT THAT THE "CONTINGENCIAMENTO" PROGRAM WAS DUE TO END JULY 1 ANYWAY, AND THAT THE DECISION ON A NEW SUPPORT PRICE FELL TO THE GOB NATIONAL MONE-TARY COUNCIL HEADED BY FINANCE MINISTER SIMONSEN. CALAZANS EMPHASIZED THAT COFFEE GROWERS WERE ASKING FOR MORE THAN A DOUBLING OF THE CURRENT SUPPORT PRICE, AND NO OTHER PRODUCT HAD BENEFITTED FROM THIS MAGNITUDE OF INCREASE. MINISTER OF INDUSTRY

CALMON DE SA (NOMINALLY CALAZANS' BOSS) ADMITTED THAT THE GOB COULD ADDRESS SEVERAL OF THE GROWERS' DEMANDS AT LEAST IN PART, BUT DENIED IN PARTICULAR THAT THE SUPPORT PRICE COULD GO TO CR\$3,000/BAG. HE LATER CAME OUT IN FAVOR OF A CR\$2,500 SUPPORT PRICE (DOUBLE THE CURRENT LEVEL), AND THUS TOOK SOME OF THE WIND OUT OF THE GROWERS' SAILS.

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IO-13 /091 W
-----123579 211024Z /20

R 201805Z APR 78
FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC 7190
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5. PRESS REACTION WAS MIXED. JORNAL DO BRAZIL'S ECONOMIC COLUMN OF MARCH 27 LAMBASTED THE COFFEE GROWERS AS "BAD MANNERED". THE ARTICLE SAID, "EVERY TIME THE COFFEE BUSINESS SLUMPS, COFFEE GROWERS START THREATENING GOD AND THE WORLD, READY TO CRUCIFY THE NEAREST GOVERNMENT COFFEE OFFICIAL." THE ARTICLE WENT ON TO TAKE APART THE GROWERS' DEMANDS AS EITHER UNREALISTIC OR ALREADY ATTENDED TO, AND FINISHED UP BY PRAISING CALAZANS FOR REMOVING THE TRAPPINGS OF PRIVILEGE THAT THE COFFEE CLASS IN BRAZIL HAD ENJOYED SINCE BEFORE THE TURN OF THE CENTURY.

6. THE MARCH. AS MENTIONED IN PARA 2, THE "MARCH"

ITSELF TURNED OUT TO BE NOT A MASSIVE DESCENT ON BRASILIA BY COFFEE GROWERS; INSTEAD A COMMITTEE OF 24 COFFEE GROWERS AND LOCAL POLITICAL LEADERS WENT TO LIMITED OFFICIAL USE

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BRASILIA MARCH 28 TO TRY TO PRESENT THEIR LIST OF DEMANDS (PARA 3) TO PRESIDENT GEISEL. ALLEGING THAT HE WAS OCCUPIED WITH THE PREPARATIONS FOR PRESIDENT CARTER'S VISIT (MARCH 29-31), GEISEL DECLINED TO RECEIVE THE DELEGATION. THE DELEGATION DID, HOWEVER, SUCCEED IN MEETING -- IF BRIEFLY -- WITH BOTH GEN. GOLBERY DO COUTO E SILVA, CHIEF OF THE PRESIDENT'S CIVIL HOUSEHOLD (CHIEF ADVISOR ON DOMESTIC AFFAIRS) AND GEN. JOAO FIGUEIREDO, GOVERNMENT PARTY CANDIDATE FOR NEXT PRESIDENT OF BRAZIL. ACCORDING TO PRESS ACCOUNTS, AFTER HIS MEETING WITH THE DELEGATION, FIGUEIREDO PERSONALLY URGED CALMON DE SA -- WHO APPARENTLY WAS AVOIDING THE GROUP -- TO SEE THEM AS WELL, AND HE DID. THE DELEGATION ALSO VISITED CONGRESS AND RECEIVED DECLARATIONS OF SUPPORT FROM MANY LEGISLATORS FROM COFFEE-PRODUCING AREAS.

7. NOTHING CONCRETE CAME OUT OF THESE ENCOUNTERS EXCEPT THE DECISION BY THE GOB TO CALL FOR A MEETING IN BRASILIA BETWEEN THE GOVERNORS OF THE THREE MOST IMPORTANT COFFEE PRODUCING STATES (SAO PAULO, PARANA AND MINAS GERAIS) AND HIGH GOB OFFICIALS TO DISCUSS THE ENTIRE COFFEE SITUATION. THIS MEETING OCCURRED ON APRIL 6, AND IT WAS A HIGH-POWERED ONE INDEED AS THE THREE GOVERNORS MET FOR 3 HOURS WITH PRESIDENT GEISEL AND THE MINISTERS OF FINANCE, INDUSTRY AND COMMERCE, AND PLANNING. LATER THE SAME DAY THE GOVERNORS MET AGAIN WITH MINISTER OF INDUSTRY CALMON DE SA (CALAZANS ALSO ATTENDED BRIEFLY), AND AFTER THIS MEETING THE FOLLOWING MEASURES WERE ANNOUNCED:

A. GURANTEE PRICES, I.E., THE PRICES AT WHICH THE IBC WILL BUY COFFEE FROM GROWERS AND THE TRADE, LIMITED OFFICIAL USE

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WERE RAISED EFFECTIVE JULY 1. AS EXPECTED, THE PRICE FOR TYPE 6 COFFEE WAS SET AT CR\$2,500 AS OPPOSED TO THE CURRENT LEVEL OF CR\$2,000.

B. THE IBC AGREED TO IMMEDIATELY BUY TYPE 7 COFFEE (NOT OF EXPORT QUALITY) FOR CR\$2,000/BAG FROM GROWERS

AND THE TRADE.

C. THE "CONTINGENCIAMENTO" PROGRAM WOULD BE ENDED
MAY 1 AS OPPOSED TO JUNE 30 AS ESTABLISHED LAST YEAR.

D. STARTING JULY 1, PRODUCTION FINANCING LOANS WILL
BE INCREASED FROM CR\$1,000/BAG TO CR\$1,250/BAG.

E. PLANTING FINANCING WILL BE INCREASED FOR THE
NEXT CROP YEAR BY 50 PERCENT.

8. GOVERNMENT REACTION. IN COMMENTS TO THE PRESS, THE
THREE GOVERNORS ALL SEEMED TO BE SATISFIED WITH THE
MEASURES ANNOUNCED. FOLHA DE SAO PAULO OF APRIL 7
QUOTED SAO PAULO GOVERNOR EGYDIO AS SAYING IN REGARD
TO THE PROGRAM, "THE BASIC PROBLEMS HAVE BEEN DEALT
WITH. WE HAVE TO HAVE A GLOBAL VISION OF THE SITUATION,
HOWEVER, SINCE THE MORE YOU GIVE THE COFFEE SECTOR THE
MORE IT WANTS. IF WE HAD GONE BEYOND WHAT WE DID,
THERE WOULD HAVE BEEN AN UNDESIRABLE INCREASE IN IN-
FLATION." GOB AUTHORITIES APPEARED SOMEWHAT CN-
CERNED WITH THE POSSIBLE INFLATIONARY IMPACT OF THE
MEASURES AT A TIME WHEN THE CONTROL OF INFLATION
(LARGELY INTENDED TO BE ACCOMPLISHED BY STRICTLY
CONTROLLING THE MONEY SUPPLY) IS A MAJOR GOB PRE-
OCCUPATION.

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9. GROWER REACTION. INITIAT GROWER REACTION WAS, AS EXPECTED, QUITE NEGATIVE. TYPICAL OF GROWE COMMENTS
WAS THE REMARK BY THE CHAIRMAN OF THE COFFEE SECTION OF THE MINAS GERAIS AGRICULTURAL FEDERATION IN THE JORNAL DE BRASILIA OF APRIL 8: "THESE MEASURES, ANNOUNCED WITH GREAT FANFARE BY THE GOVERNMENT CONSTITUTE VERITABLE TREASON AGAINST THE COFFEE PRODUCERS." MANY GROWERS CALLED FOR ANOTHER "MARCH". AFTER A SHORT PERIOD OF TIME, HOWEVER, TEMPER COOLED AND GROWERS BEGAN TO TAKE ADVANTAGE OF THE IBC PURCHASE PROGRAM FOR TYPE 6 AND 7 COFFEE. COMMENT. MOST OBSERVERS AGREE THAT THE CR\$2,500/BAG(APPROXIMATELY US\$150 AT CURRENT EXCHANGE RATES) PRICE THE IBC IS OFFERING FOR TYPE 6 COFFEE (THIS IS THE GROSS PRICE; THE SELLERS ACTUALLY RECEIVE LESS DUE TO THE DEDUCTION
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FOR TAXES) IS A GENEROUS ONE FOR MOST GORWERS. ESTIMATED COFFEE PRODUCTION COSTS ARE ROUGHLY US\$100/BAG, ALTHOUGH PRODUCTION COSTS VARY GREATLY AMONG REGIONS AND GROWERS. ON THE OTHER HAND, GROWERS WHO CHOOSE TO SELL TO THE IBC RATHER THAN FINANCE THEIR PRODUCTION OF COURSE LOSE THE CHANCE OF TAKING ADVANTAGE OF POSSIBLE INCREASES IN WORLD COFFEE PRICES. END COMMENT.

10. EFFECT ON PRICES. THE MEASURES ANNOUNCED BY THE GOB WERE NOT SPECIFICALLY INTENDED TO HAVE AN IMPACT ON WORLD COFFEE PRICES, BUT SOME OBSERVERS BELIEVE THIS WILL BE THE CASE. CALMON DE SA BELIEVES THAT "TO THE EXTENT THAT THE INTERNAL PRICE FOR COFFEE IS BETTER, COFFEE IMPORTERS WILL HAVE TO PAY MORE AND (WORTD COFFEE) PRICES WILL RISE (ESTADO DE SAO PAULO, APRIL 7)." ON THE OTHER HAND, THESE MEASURES MAY WELL LEAD TO HIGHER RETAIT COFFEE PRICES FOR BRAZILIAN CONSUMERS. ACCORDING TO FOLHA DE SAO PAULO OF APRIL 7, CALMON DE SA SAID THERE WOULD BE NO IMMEDIATE IMPACT ON DOMESTIC RETAIL COFFEE PRICES (SET BY THE GOB), BUT ADMITTED THAT PRICES COULD GO UP IN JULY WHEN COFFEE RAOSTERS REQUEST THEIR PERIODIC PRICE ADJUSTMENTS BASED ON COSTS.

11. POLITICAL IMPPECT. THE GOB RECEPTION OF BOTH THE 24-MAN "MARCH ON BRASILIA" COMMITTEE AND OF THE THREE

GOVERNORS (INCLUDING GOVERNOR AURELIANO CHAVES OF MINAS GERAIS, FIGUEIREDO'S RUNNING MATE AS GOVERNMENT PARTY CANDIDATE FOR VICE PRESIDENT OF BRAZIL, AND PARANA GOVERNOR JAYME CANET, WHO WILL LIKELY HOLD A CABINET POST IN FIGUEIREDO ADMINISTRATION) WAS PROBABLY MORE A REFLECTION OF THE POLITICAL SENSITIVITY OF THE GOVERNMENT LIMITED OFFICIAL USE

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MENT RATHER THAN TO DEEP CONCERN FOR THE WELFARE OF THE COFFEE CLASS. ELECTIONS, SUCH AS THEY ARE IN BRAZIL, ARE ONLY 7 MONTHS AWAY, AND THE ORGANIZERS OF THE MARCH MADE IT CLEAR THAT IF THEIR DEMANDS WEREN'T ATTENDED TO, THE GOVERNMENT PARTY WOULD LIKELY FAIR POORLY IN ELECTIONS IN THE COFFEE GROWING AREAS.

12. REGIONALISM. A MINOR BUT NONETHELESS INTERESTING ASPECT OF THIS LATEST COFFEE POLICY CRISIS WAS THE EMERGENCE OF REGIONAL DIFFERENCES AMONG COFFEE GROWERS. THE PRESS REPORTED MINOR DIFFERENCES BETWEEN THE SAO PAULO AND PARANA GROWERS, BUT MORE SIGNIFICANT WAS THE TOTAL DISLOCATION OF THE BAHIA (NORTHEAST BRAZIL) GROWERS FROM THE "MARCH ON BRASILIA". THEY ISSUED PRESS STATEMENTS CONDEMNING THE MARCH AND SUPPORTING (FELLOW NORTHEASTERNER) CALAZANS. IT IS NOT CLEAR EXACTLY WHY THIS SPLIT TOOK PLACE ALTHOUGH IT CAN BE NOTED THAT THE NORTHEAST IS STILL A NET IMPORTER OF COFFEE AND THE BAHIAN THEREFORE ARE NOT CONCERNED ABOUT IBC EXPORT POLICY OR THE RAMIFICATIONS OF INTERNAL COFFEE POLICY ON THE EXPORT SECTOR. JOHNSON

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: COFFEE, PUBLIC DEMONSTRATIONS, EXPORTS, POLICIES, MARKETS, AGRICULTURAL WORKERS, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 20 apr 1978
Decaption Date: 20 Mar 2014
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978BRASIL03193
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780170-1013
Format: TEL
From: BRASILIA
Handling Restrictions:
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780437/aaaaberv.tel
Line Count: 366
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 483501ab-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: ONLY
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: ONLY
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2908227
Secure: OPEN
Status: NATIVE
Subject: BRAZIL'S COFFEE GROWERS' "MARCH ON BRASILIA"
TAGS: EAGR, ETRD, BR, IBC
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/483501ab-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014